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ABSTRACT

The Foundation Program, revamped by the 1986 South Dakota legislative session, provides a method of determining the state aid support to school districts. In addition, state aid is provided for separate special education funding and for tuition incentive funding. The latter provides up to 3 years of state aid, both for contracting high school students to another district and for situations in which a school district dissolves and attaches to another school district. The combined methodologies for determining the amount due each school district are called the "State Aid Formula." This narrative describes the basic stages in determining the total state aid due each district and explains the statute that provides the step's authorization. It is stated that if this document is updated at the end of each legislative session, it will remain a current interpretation of the state aid process. Equalization is the primary thrust of state aid, and the formula recognizes that it generally costs more per pupil for a small district than for a larger district. There is also a levy adjustment to allow the state demand, as calculated, to coincide with the funds appropriated by the legislature. The report concludes with over four pages of definitions of variables. (MLF)

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A NARRATIVE DESCRIPTION
OF THE
STATE AID FORMULA
1987-88 DISTRIBUTION

DEPARTMENT OF EDUCATION AND CULTURAL AFFAIRS

JULY 1987

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Introduction

The Foundation Program as defined in SDCL 13-13-10 provides a method of determining the State Aid Support for South Dakota school districts. In addition, SDCL 13-37-24 provides a method for determining separate Special Education funding. SDCL 13-15-14 is the Tuition Incentive funding which provides up to three years of State Aid funding for contracting high school students to another district. SDCL 13-13-38.1 also provides for a tuition incentive up to 3 years where a school district dissolves and attaches to another school district. The combined methodologies for determining the amount due each school district is called the "State Aid Formula."

The following narrative describes the basic stages in determining the total State Aid due each district and which statute provides the step's authorization. While the process listed on these pages will compute the dollars due a specific district, an equally important step in the process is the human interpretation and application of these calculations as they relate to each school district's unique situation. Therefore, the "State Aid Formula" is a combination of strictly mechanical computations and human insight into the history of the state aid process and the uniqueness of each South Dakota School District.

If this document is updated at the end of each Legislative Session, it will remain a current interpretation of the state aid process.

State Aid - Minimum General Qualifications

The eligibility of a district to share in the Foundation Program funds is determined in accordance with SDCL 13-13-13 through 13-13-20 inclusive.

1. Operation of Attendance Centers (SDCL 13-13-14)

The school district must have operated one or more attendance centers during the previous school year. School districts that contract students to another district, either in or out of state, meet this requirement by interpretation of attendance center meaning the attendance center of the school district being contracted.

2. One Teacher Schools (SDCL 13-13-15)

The district must not have operated a one teacher rural school with an average daily membership of five or less pupils within five miles of any other public elementary school. Failure to comply will disqualify the district from receiving any general support funds.

3. Small High School (SDCL 13-13-16)

The school district must not operate a high school (9-12) during the second preceding fiscal year with an average daily membership less than 35, unless the high school (9-12) was located more than 20 miles from any other public secondary school. Failure to comply will disqualify the district from general support funds for the secondary program only and would receive 65 percent of total entitlement which would compensate the elementary program.

4. Certified Teachers (SDCL 13-13-17)

School district must have employed only properly qualified teachers holding valid South Dakota teaching certificates qualifying them to teach the subject and grades to which they were assigned during the previous fiscal year.

5. Accreditations of Schools (SDCL 13-13-18)

The district must have operated only accredited schools, as defined by the State Board of Education, during the previous fiscal year. Failure to comply will disqualify the district from receiving Foundation Program funding.

6. Newly Reorganized District (SDCL 13-13-19)

A newly reorganized district, which has become a new entity by July first of the fiscal year in which the foundation payments are made will be considered eligible according to SDCL 13-13-14 to 13-13-18 as long as the district is in compliance during the fiscal year it becomes an entity.

State Foundation Program

The 1986 session of the legislature completely revamped the Foundation Program through what was known as SB155. This was effective with the aid that was distributed during the 1986-87 school year.

The program grew out of a need that would better address the emerging needs of the next century.

The primary philosophy is that there should be a positive relationship between the tax rate and the per pupil expenditure in each school district. A table in law provides that as the per pupil expenditure increases the tax rate increases also.

A secondary philosophy is that state aid is used to empower each district to have equitable resources for providing an educational program. Equalization is now the primary thrust of state aid. The formula provides that the same tax rate is used for a given per pupil expenditure. Based on the dollar amount that tax rate will raise (based on relative wealth) ultimately determines a district's state aid. The formula deducts the amount received from personal property tax replacement, state apportionment, county apportionment and tuition receipts from the initial state aid calculation to determine "final" state aid.

The formula recognizes that it generally costs more per pupil for a small district than it does in a larger district. A table provides a mill levy deduction ranging from 10 mills for the smallest districts to 2.2 mills for the largest districts to address this difference in cost.

There is also a "constant" mill levy adjustment that is necessary in order to allow the state aid "demand", as calculated, to coincide with the dollars "available" as appropriated by the legislature.

Table 1 - SDCL 13-13-45

This table gives the initial mill levy on agricultural property that equates to the per pupil expenditure.

<u>Adj. Cost Per ADM</u>	<u>Ag Mills</u>	<u>Adj. Cost Per ADM</u>	<u>Ag Mills</u>
1500	8.00	2800	14.16
1600	8.36	2900	14.80
1700	8.73	3000	15.47
1800	9.13	3100	16.16
1900	9.54	3200	16.89
2000	9.97	3300	17.64
2100	10.41	3400	18.44
2200	10.88	3500	19.27
2300	11.37	3600	20.13
2400	11.88	3700	21.04
2500	12.41	3800	21.98
2600	12.97	3900	22.97
2700	13.56	4000	24.00

Table 11 - SDCL 13-13-45

This table gives the ag mill adjustment based on total ADM of the school district.

<u>ADM</u>	<u>Ag Mill Adjustment</u>
0-109.9	- 8.00**
110.0-175.9	-10.00
176.0-269.9	- 9.00
270.0-449.9	- 8.00
450.0-789.9	- 6.80
790.0-1154.9	- 4.50
1155.0-1794.9	- 3.50
1795.0-2564.9	- 2.70
2565+	- 2.20

**Any school with an enrollment of less than 110 and has a high school with enrollment less than 35 but is more than 20 miles from the nearest high school shall use -10.0.

Establishment of the "Adjusted Taxable Valuation"

Per SDCL 13-13-10.1

1. Establish "Adjusted Full and True Value"

The Foundation Program formula requires the various district's tax bases to be adjusted to allow for the differences among counties of the taxable percentage and Assessment/Sales ratios. This is accomplished by first taking the taxable valuation for each real estate category (see definition), as supplied by the Department of Revenue, and dividing it by the taxable percentage established by the county commissioners for that real estate category (see definition). The result of this calculation will be the "full and true" valuation for that category as determined by the county assessor. The full and true valuation is then adjusted to reflect the adjusted full and true value for each category. This process is necessary to establish a common basis to determine relative school district wealth. The full and true valuation for each real estate category (except utilities) is divided by the assessment/sales ratio for that category to produce an "adjusted full and true value" for that real estate category. The assessment/sales ratio is provided by the Department of Revenue and reflects the ratio of the median selling price to the full and true valuation for each real estate category.

For agricultural real estate, the assessment/sales ratio is supplied by the Department of Revenue and reflects the current conditions. For nonagricultural real estate, the current full year's assessment/sales ratio is used. Utilities full and true valuation is now added to the nonagricultural adjusted full and true value, since the utility's full and true valuation is considered to be the adjusted full and true value.

2. Establish "Equalized Taxable Valuation"

The equalized taxable valuation for each district is determined by multiplying the adjusted full and true value by 60 percent. The equalized taxable valuation reflects a comparative estimate of the total taxable wealth of each school district in the state.

Computation of State Aid to School Districts

The state superintendent shall compute state aid to education for each school district under the foundation program according to the following calculations:

- (1) Subtract nonformula revenue from total general fund expenditures;
- (2) Subtract the amount by which the general fund balance on June thirtieth of the preceding school fiscal year exceeds the guidelines established by the South Dakota board of education from calculation (1);
- (3) Divide the difference from calculation (2) by the average daily membership for the school fiscal year two years prior to the school fiscal year for which state aid is to be distributed under the foundation program;
- (4) The quotient obtained in calculation (3) shall be used to determine a mill levy according to a set formula (See Tables I and II);
- (5) The mill levy for agricultural property and nonagricultural property as determined according to the formula in § 13-13-45 and § 13-13-46 shall be applied against the equalized taxable values for each school district;

- (6) State aid under the foundation program is (a) calculation (2) minus calculation (5) minus personal property tax replacement minus tuition revenue minus state apportionment minus county apportionment or (b) zero if the calculation in (a) is a negative number.

State Aid Cap

Effective through June 30, 1988, the maximum amount of state aid under the foundation program for any school district is forty-five percent of the general fund expenditures for the school fiscal year two years prior to the school fiscal year for which state aid is to be distributed under the foundation program and effective July 1, 1988, the maximum amount of state aid under the foundation program for any school district is forty percent of the general fund expenditures for the school fiscal year two years prior to the school fiscal year for which state aid is to be distributed under the foundation program.

Hold Harmless

As part of the State Aid Bill each year, a section is devoted to adjusting the amount of aid received by a district to a minimum or maximum level. The name given to this practice is "hold harmless" and it protects school districts from severe drops or large increases in state funding levels caused by changing per pupil costs and/or land valuation changes. The "hold harmless" computation must be done after the "final" state aid is calculated.

1. Computation of total current state aid

The total state aid calculated for a district, and used in the determination of "hold harmless", is the amount of aid received in the previous school year.

2. Determination of "Hold Harmless" eligibility

The district must first meet the eligibility requirements of SDCL 13-13-37.1 in order to be considered for hold harmless aid. The amount of aid under the foundation program, not including the entitlement provided for in § 13-13-24.1, that a school district receives may not be less than ninety percent of the amount of aid received under the foundation program, not including the entitlement provided for in § 13-13-24.1, received during the preceding year. The hold harmless provided for herein does not apply to any school district that operated a secondary school during the school fiscal year two years prior to the school fiscal year for which state aid is to be distributed under the foundation program with an average daily membership of less than thirty-five pupils enrolled in grades nine through twelve in the school; unless the secondary school was located more than twenty miles distance between schools shall be calculated by miles traveled on highway systems as defined in subdivision (1), (2) or (4) of § 31-1-5. The hold harmless provided for herein does not apply to any school district that is subject to the limitation provided for in § 13-13-32.1.

Special Education

The Special Education state aid is governed by SDCL 13-37-24 and the Education appropriation bill, which authorizes the state aid and sets the formula in terms of Allowable Costs. Revenues and either a 50 percent reimbursement rate or a 100% reimbursable rate based on handicapping conditions of the student. State Board of Education Rules 24:05:10:13 through 24:05:10:16 inclusive define what is allowable cost for reimbursement and what must be deducted as revenue.

The Special Education reimbursement is based on the second preceding year's annual report (see definition) and the state aid bill for the current year. The entitlement or funding level is set at 50 percent by SDCL 13-37-24, or 100% by the appropriation bill, however, the legislature can fund the special education portion at any level they choose in the state aid bill. Based on the dollars appropriated. If the available funding is less than the 50 or 100 percent needed for full special education reimbursement, the amount paid to each district will be prorated based on the actual funding level.

1. Qualifying for Special Education Aid (SDCL 13-37-18)

The school district must serve a minimum of 1 percent of their average daily membership in a special assistance or prolonged assistance program.

2. Special Education Cooperatives (SDCL 13-37-14.2)

Special Education Cooperatives, an organization established by two or more school districts to meet their combined Special Education needs, do not directly participate in the Special Education state aid program. The costs of operating the cooperative and any income received through the cooperative is recorded on the annual reports of the participating school districts under purchased services.

*NOTE: Grants are currently being applied for and received by Special Education cooperatives. This income is not reflected in the member school districts' annual report.

3. Allowable Costs

The determination of total allowable costs is accumulated from the annual report. All of the costs are collected from the Special Education Fund Statement of Expenditures by Function by Object. The following costs are allowable:

Function-Object	Description:
Total of all	
1000's-100	Total Instruction - salaries
1000's-200	Total Instruction - benefits
1000's-300	Total Instruction - purchased services
1000's-400	Total Instruction - supplies and materials
2110-100	Support-Attendance & Social Services - salaries
2110-200	Support-Attendance & Social Services - benefits
2110-300	Support-Attendance & Social Services - purchased services
2110-400	Support-Attendance & Social Services - supplies and materials
2130-100	Support-Health Service - salaries
2130-200	Support-Health Service - benefits
2130-300	Support-Health Service - purchased services
2130-400	Support-Health Service - materials & supplies
2140-100	Support-Psychological Service - salaries
2140-200	Support-Psychological Service - benefits
2140-300	Support-Psychological Service - purchased services
2140-400	Support-Psychological Service - materials & supplies
2150-100	Support-Speech & Audio Service - salaries
2150-200	Support-Speech & Audio Service - benefits

2150-300	Support-Speech & Audio Service - purchased services
2150-400	Support-Speech & Audio Service - materials & supplies
2210-100	Support Improvement of Inst. - salaries
2210-200	Support Improvement of Inst. - benefits
2210-300	Support Improvement of Inst. - purchased services
2210-400	Support Improvement of Inst. - materials & supplies
2490-100	Support Other School Admin. - salaries
2490-200	Support Other School Admin. - benefits
2490-300	Support Other School Admin. - purchased services
2490-400	Support Other School Admin. - materials & supplies
2550-100	Pupil Transportation - salaries
2550-200	Pupil Transportation - benefits
2550-300	Pupil Transportation - purchased services
2550-331	Pupil Transportation - contracted bus services
2550-332	Pupil Transportation - mileage paid to parents
2550-333	Pupil Transportation - board and room paid to parents
2550-339	Pupil Transportation - other pupil transportation
2550-400	Pupil Transportation - materials and supplies
2591-100	Support Other Support Service - salaries
2591-200	Support Other Support Service - benefits
2591-300	Support Other Support Service - purchased services
2591-400	Support Other Support Service - materials & supplies
2592-313	Cooperative Special Ed. Unit - purchased services
2620-100	Support-Planning/Research/Eval. - salaries
2620-200	Support-Planning/Research/Eval. - benefits
2620-300	Support-Planning/Research/Eval. - purchased services

2620-400	Support-Planning/Research/Eval. - materials & supplies
2900-100	Support-Other Service - salaries
2900-200	Support-Other Service - benefits
2900-300	Support-Other Service - purchased services
2900-400	Support-Other Service - materials & supplies
4100-331	Payment To Districts In State - bus services
4100-335	Payment To Districts In State - transportation-common carrier or bus
4100-370	Payment To Districts In State - tuition
4200-331	Payments To Districts Out-Of-State - bus services
4200-335	Payments To Districts Out-Of-State - transportation-common carrier or bus
4200-370	Payments To Districts Out-Of-State - tuition
4900-332	Payments To Other Educational Units - Mileage paid to parents
4900-333	Payments To Other Educational Units - board and room paid to parents
4900-335	Payments To Other Educational Units - transportation-common carrier or bus
4900-370	Payments To Other Educational Units - tuition
4900-390	Payments To Other Educational Units - other purchased services

4. Deductible Special Education Revenues

The determination of deductible revenues is made from the annual report (see definition). The revenue items to be deducted from the allowable costs are defined in State Board of Education Rules 24:05:10:14 and are reported by the districts on pages and of the annual report.

<u>Account</u>	<u>Description</u>
1310	Regular Tuition - Special Education Fund
1330	Summer School Tuition - Special Education Fund
3310	Tuition (SDCL 13-28-11.1) - Special Education Fund
4176	ECIA Chapter I - Special Education Fund
4177	ECIA Chapter II - Special Education Fund
4179	ECIA-Title VI (P.L.94-142) - Special Education Fund

Also subtracted are special education transportation receipts from specifically designated sources (Vo. Ed., Sp. Ed., BIA, Chapter I, etc).

5. Computation of Special Education Entitlement

Subtract the total revenues from step 4 from the total allowable expenditures from step 3, then subtract those expenditures identified as 100% reimbursable. Multiply the difference by 50 percent and add the 100% reimbursable to obtain the district Special Education Entitlement. If the funding appropriated by the legislature does not fully fund the calculated Special Education entitlement, then the distribution of the available funds will be made on a percentage basis.

Effective July 1, 1987, a school districts' entitlement to Special Education Aid shall be reduced by one-half if the school districts' local effort is not equal to one mill levied against its taxable valuation for the 1985-86 school year; however, there shall be no reduction for prolonged-assistance costs.

Definitions of Variables

A.D.M. Average Daily Membership

ADM - Elementary

ADM K-8 plus 9-12

+ADM Dual Enrolled K-8 plus 9-12

+ADM outgoing tuition students

-Special Education FTE count (based on 30 hr week) from Dec. Sp. Ed. Count

Adjusted Full and True Value

The value computed for agricultural and nonagricultural property and used to determine a school district's relative wealth in the Foundation Program.

The estimated worth of real estate determined by adjusting the county assessor's valuation with actual sales data.

Annual Report

The yearly annual financial report submitted by each school district. Part one of the report provides student enrollments and transportation data; Parts two and three contain detailed financial data. The data used in the state aid computation represent the status as of the second preceding fiscal year.

Assessment/Sales Ratio

The ratio of the recorded assessed (full and true) valuation of property, as determined by the county assessor, to the actual sales amount for the same property.

Board and Room Paid - cost

+2550-333 Special Education -

+4900-333 Special Education -

Bus Service Costs - Contracting districts

+4200-331 Special Education -

Bus Services Costs -

- +2550-100 Special Education - Pupil Transportation salaries
- +2550-200 Special Education - Pupil Transportation benefits
- +2550-300 Special Education - Pupil Transportation purchased services
- +2550-400 Special Education - Pupil Transportation materials and supplies

Bus Service Costs - Private contractor

- +2550-331 Special Education Pupil Transportation contracted bus service
- or 4200-331 Special Education Payments to Districts outside state bus service

Contracting Districts

The school districts in South Dakota that contract for educational services with a school district in another state or in another South Dakota district.

Out of State

- 05007 Lake Hendricks 5-4
- *16003 Elk Mountain 16-2
- *19002 Astoria 19-1
- *25002 Big Stone City 25-1
- 25006 Big Stone 25-2
- 440003 Wachter 44-3
- 5005 Hermanson 50-4
- *52003 Northwest 52-3
- 54008 Browns Valley 54-1
- 61005 Greater Hoyt 61-4
- 61006 Greater Scott 61-5

In State

*38005 Oldham 38-4

*48002 Carthage 48-2

*58005 Agar 58-1

*62001 Glenham 62-1

*62004 Java 62-2

*operate elementary classrooms within the district

Equalized Taxable Values

The adjusted full and true values multiplied by six-tenths.

Formula Revenue

The sum of school district general fund revenue from ad valorem taxes, state aid to education, personal property tax replacement, state apportionment, county apportionment and tuition receipts. "Formula revenue" does not include revenue from federal sources.

Full and True Value

The calculated value of property within a district computed by dividing the taxable valuation by the taxable percentage. This should equate to the county assessor's estimate of the assessed (full and true) valuation of the property.

Hold Harmless

The amount of aid received by a district can not be less than 90 percent nor more than 105% of the amount they received in the previous school year.

Mill Levy

The four categories of millage as determined by the county auditor, based on school district's tax request.

1. General Fund - Agricultural property
2. General Fund - Nonagricultural property
3. Special Education
4. Capital Outlay

Mileage Paid to Parents - Cost

2550-332 - Special Education Fund

4900-332 - Special Education Fund

Nonformula Revenue

The difference between total budgeted general fund revenue and formula revenue.

One Teacher School

The number of one teacher schools operated by the district.

Two Teacher School

The number of two teacher schools operated by the district.

Property Categories

The segregation of property for assessment and taxing. The three categories are:

1. Agricultural
2. Nonagricultural
3. Utilities

Special Education Transportation - Common Carrier

4100-335 Special Education - Payments to districts within state -
transportation common carrier or bus

+4200-335 Special Education - Payments to districts outside district -
transportation common carrier or bus

+4900-335 Special Education - Payments to other education units -
transportation common carrier or bus

Taxable percentage

The percentage of the full and true valuation (assessed valuation) that will be used to determine taxable valuation.

Taxable valuation

The amount that will be subject to mileage and computed by multiplying the full and true valuation by the taxable percentage.

Tuition Receipts

Represents the amount of money received by the district for tuition students from other districts.

- 1310 - Regular tuition
- +1311 - Tuition from pupils/parents
- +1320 - Audit/Continuing Education Tuition
- +1321 - Tuition from pupils/parents
- +1330 - Summer school tuition
- +3310 - Tuition (SDCL 13-28-11.1)